

Montana Department of Commerce Microbusiness Finance Program (MCA 17-6-401)

Program Performance

- MBDCs have made over 900 loans totaling more than \$15.560 million to Montana microbusinesses since program inception. This means that State funding of \$4.688 Million has been paid back by borrowers to MBDC's and re-lent to new businesses more than three times.
- The loans to the microbusinesses have supported the creation and retention of 1,935 jobs documented at closing.
- The State has not lost any portion of its principal investment. The assets of all of the MBDCs exceed the loans owing to the State of Montana and the State of Montana has a first lien on those assets.

History: House Bill 477 (Microbusiness Development Act) was passed by the 52nd Legislature (1991) and program funding was appropriated from the coal severance tax permanent fund.

Purpose: The legislative purpose of the Microbusiness Development Act was to: create a program to encourage and assist in the creation, development, and financing of businesses with fewer than 10 full-time equivalent employees and gross revenues of less than \$500,000 a year.

Funding: During the 1993 biennium, a total of \$3.25 million was appropriated from the Coal Tax Trust Fund for loans to Microbusiness Development Corporations (MBDCs). During the 1997 biennium, an additional \$3.5 million was appropriated from the Coal Tax Trust Fund for loans to Microbusiness Development Corporations (MBDCs). A total of \$4.688 million was committed under these appropriations by the Department of Commerce (Department) and the remaining appropriation was retained in the Coal Tax Trust Fund. The Department is still lending the original \$4.688 million to MBDCs. The State has not lost any of its original principal investment. Program administration is self funded; the program receives no general fund appropriations.

Loan Criteria: The Department certifies MBDCs to provide loans and technical assistance to Montana microbusinesses. By statute MBDCs are defined as a non-profit corporation organized and existing under the laws of the state, which have an adequate source of operating capital. The Department loans program funds to certified MBDCs, which combine the State's funds with local matching funds. The MBDCs re-lend these funds to qualified microbusinesses.

Match Requirement: MBDCs are statutorily required to contribute cash in the ratio of \$1 for every \$6 of State funds (14% equity) to leverage and secure the State's loan. Throughout the term of the loan agreement with the State, matching loan funds must be maintained and loaned together to microbusinesses in the \$1:\$6 ratio.

Security of State Funds: The MBDC (umbrella organization) covers any loan losses experienced by the MBDC, not the State of Montana. Only in the event that an MBDC (umbrella organization) should default on its obligation to the State, would there be a risk of losing State funds. MBDCs are statutorily required to have sufficient sources of operating funds to cover the costs of providing program services and are required to contribute cash matching funds to leverage and secure the State's loan. The State has never lost any portion of its principal investment.

Eligible Microbusinesses: By statute an eligible microbusiness is defined as a business enterprise located in the state that: (a) produces goods or provides services and has fewer than 10 full-time equivalent employees and annual gross revenue of less than \$500,000; or (b) produces energy using an alternative renewable energy source as defined in 15-6-225 MCA. 80% of Montana businesses have fewer than 10 employees. No legislative change to the definition of microbusiness has occurred since the creation of the program.

Microbusiness Loan Threshold: A certified MBDC may make loans to eligible microbusinesses, provided that a single loan does not exceed \$35,000 and the outstanding balance of all loans to a microbusiness or a project participated in by more than one microbusiness or to two or more microbusinesses in which any one person holds more than a 20% equity share does not exceed \$35,000. House Bill 354 that was passed by the 54th Legislature (1995) increased the maximum single loan amount from \$20,000 to \$35,000.

Reporting: MBDCs are required to submit quarterly reports and professionally audited financial statements annually to the Department of Commerce.

Economic Development Advisory Council (EDAC): The EDAC is administratively attached to the Department (2-15-1820 MCA) and advises the Department on the management and operations of the program.

- 19 Member Council:
 - 4 Legislative Members (2 Representatives, 2 Senators)
 - 1 Tribal Representative
 - 12 Public Members covering all regions of the state
 - 2 State Officials (Chief Business Officer, Commerce Director)

Proposed Legislative Changes (HB 137 – Villa): The Economic Development Advisory Council (attached to Commerce and provided for in MCA 2-15-1820) recommended the following legislative changes to the Microbusiness Finance Program.

- Increase the maximum loan amount for microbusiness loans from \$35,000 to \$100,000 and
- Adjust the annual gross revenue definition of a microbusiness from \$500,000 to \$1,000,000
 - **HB 137 - Purpose:** Account for inflationary increases and projected future inflation increases in program eligibility thresholds to provide greater access to the program to Montana businesses.
 - **Fiscal Impact:** The bill only changes eligibility thresholds and therefore has no fiscal impact to the state.

MICRO BUSINESS LOAN PROGRAM
COST/BENEFIT ANALYSIS FOR INVESTMENT IN LOANS

1,935 jobs were created or retained at the time of loan closing by businesses receiving Micro Loan funds since the inception of the program.

Assume:

- All jobs make the Statewide average wage for Montana (\$14.03 per hour)
- Income tax as a percent of gross wages is 3.97% - this is the effective tax rate posted by the Montana Department of Revenue on their website.
- Opportunity cost to State of Montana for interest lost from investment is 5.6% per year.
- There is \$4.688 million of State investment in the Microbusiness loan program.

Therefore:

- 1,935 @ \$14.03 per hour x 2,080 hrs per year = \$56,467,944 in annual wages.
- Spending by these employees supports an additional 382 jobs who earn \$8,178,438 in compensation.
- Total annual income tax paid = \$2,566,460.
 - \$56,467,944 in compensation for direct jobs X 3.97% = \$2,241,777 income taxes paid per year to State of Montana.
 - \$8,178,438 in compensation for supported jobs X 3.97% = \$324,684.
- Total opportunity cost @ \$4.688 million per year X 5.6% = (\$262,528). interest cost to State of Montana.

Net Gain to State of Montana:

\$2,566,460 per year in new income tax - \$262,528 cost of interest =

\$2,303,932 annual gain to State General Fund.

Note: This analysis uses state averages for compensation and taxes paid. It also assumes continuing job counts over time. Any one, or all of these factors could be reduced significantly and the State of Montana general fund would still see a significant positive return on investment.